

## Message Text

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ACTION NEA-10

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E.O. 11652: N/A  
TAGS: EFIN, EAGR, BG  
SUBJECT: CREDIT POLICY RELAXED TO STIMULATE PRIVATE FOODGRAIN  
PURCHASES

1. SUMMARY. BANGLADESH BANK HAS RELAXED CREDIT RE-  
STRUCTIONS TO ENCOURAGE PRIVATE TRADERS TO SUPPLEMENT  
BDG PURCHASES OF FOODGRAINS FROM FARMERS, WHILE THE  
FOOD MINISTRY HAS LIFTED MANY RESTRICTIONS ON AMOUNTS  
AND TIME PERIODS DEALERS MAY HOLD FOOD STOCKS. THESE  
MOVES ARE INTENDED TO RAISE FARMGATE PRICES, CONTRIBUTE  
TO SUCCESS OF PROCUREMENT DRIVE, AND STIMULATE CURRENTLY  
SLUGGISH BUSINESS CONDITIONS, LEADING OVER TIME TO  
INCREASED IMPORTS AND ENHANCED DRAWDOWNS OF COMMODITY  
ASSISTANCE. END SUMMARY.

2. BANGLADESH BANK ANNOUNCED NOVEMBER 27 THAT: QUOTE  
AS A PRICE SUPPORT MEASURE, GOVERNMENT HAS DECIDED TO  
ENCOURAGE PRIVATE SECTOR PROCUREMENT AND TRADING IN  
FOODGRAINS TO SUPPLEMENT THE FOOD PROCUREMENT PROGRAMME  
OF THE FOOD MINISTRY. COMMERCIAL BANKS WILL NOW PROVIDE  
CREDIT FACILITIES TO THE PRIVATE TRADERS FOR PURCHASE OF  
RICE AND PADDY WITH EFFECT FROM 1ST DECEMBER, 1976.  
UPTIL NOW THERE WERE RESTRICTIONS ON CREDIT FACILITIES  
FOR PRIVATE VSECTOR TRADING IN FOODGRAINS.

I CREDIT WILL BE AVAILABLE ONLY TO THE LICENSED WHOLE-  
SALE AND RETAIL TRADERS IN FOODGRAINS ON THE FOLLOWING  
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BASIS:  
(A) LOANS WILL BE SECURED BY PLEDGE OR HYPOTHECA-

TION OF STOCK OF RICE AND PADDY. IN THE CASE OF HYPO-  
THECATION, A FURTHER COLLATERAL IN THE FORM OF MORTGAGE  
OF REAL ESTATE MAY BE TAKEN, IF NECESSARY.

(B) MARGIN ON ADVANCES WILL NOT EXCEED 25 PERCENT.

(C) VALUATION OF STOCKS WILL BE BASED ON THE  
ACTUAL PRICE PAID OR GOVERNMENT PROCUREMENT PRICE  
WHICHEVER IS LOWER.

(D) THE BORROWERS WOULD NEED TO COMPLY STRICTLY  
WITH THE INSTRUCTIONS ISSUED BY THE GOVERNMENT FROM TIME  
TO TIME WITH REGARDS TO THE HOLDING OF STOCK OF FOOD-  
GRAINS.

(E) THE LOANS WILL BE REQUIRED TO BE RETIRED  
WITHIN A MAXIMUM PERIOD OF 10 MONTHS AND IN ANY CASE  
WITHIN SEPTEMBER 30, 1977. END QUOTE.

3. BANGLADESH BANK GOVERNOR EXPLAINED TO ECON COUNSELOR  
NOVEMBER 30 THAT ABOUT TAKA 300 MILLION (\$20 MILLION)  
HAD BEEN ALLOCATED FOR THIS PURPOSE, BUT THAT AMOUNT  
WAS "FLEXIBLE." IT WAS EXPECTED THAT GIVEN A PARTIAL  
TURNOVER IN STOCKS (I.E., BY USING SALES PROCEEDS TO BUY  
ADDITIONAL AMOUNTS FROM FARMERS), SUCH AN AMOUNT OF  
CREDIT WOULD FINANCE PURCHASES OF 200,000 TONS OF PADDY  
(AT PROCUREMENT PRICE OF TAKA 74 PER MAUND (82 LBS).  
300 MILLION TAKA WOULD ACTUALLY BUY ABOUT 150,000 MT  
OF PADDY). GOVERNOR ALSO EMPHASIZED THAT TAKA 120 MIL-  
LION SANCTIONED TO DATE FOR DISBURSEMENT TO FARMERS UNDER  
BDG FOOD MINISTRY AMAN HARVEST PROCUREMENT PROGRAM WAS  
ONLY FIRST INSTALLMENT AND THAT CREDIT WOULD BE MADE  
AVAILABLE IN AMOUNTS NEEDED TO ENABLE FOOD MINISTRY TO  
PROCURE FULL 500,000 MT TARGETED FOR FY 1977. (FIRST  
TRANCHE OF TAKA 120 MILLION WOULD PURCHASE ONLY ABOUT  
60,000 MT OF PADDY.) THUS BDG INTENDED THAT PRIVATE  
SECTOR EFFORTS WOULD SUPPLEMENT, NOT REPLACE, OFFICIAL  
BDG PROCUREMENT DRIVE.

4. OVER PAST FEW MONTHS, FOOD MINISTRY HAD GRADUALLY  
WITHDRAWN RESTRICTIONS ON AMOUNTS AND TIME PERIODS  
LIMITING PRIVATE TRADERS' HOLDINGS OF STOCKS. AT  
SAME TIME, LICENSING PROCEDURES HAVE BEEN SIMPLIFIED TO  
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POINT WHERE ALMOST ANYONE MAY OBTAIN A LICENSE TO TRADE  
IN FOODGRAINS. PRACTICAL EFFECT HAS BEEN TO INCREASE  
GREATLY SCOPE FOR PRIVATE TRADE IN FOODGRAINS.

5. ACCORDING TO GOVERNOR, BDG EXPECTS THAT THIS MOVE  
WILL HELP STIMULATE CURRENTLY SLUGGISH BUSINESS CONDIT-  
IONS WHICH MOST OBSERVERS HERE FEEL HAVE BEEN  
LIMITED BYV REDUCED RURAL PURCHASING POWER DUE TO LOW  
RICE PRICES AND BY CREDIT RESTRAINTS IMPOSED  
SINCE OCTOBER 1974. FOOD MINISTRY PURCHASES ARE CON-

SIDERED INFLATIONARY IN SHORT-TERM, AS MONEY IS PAID  
OUT, WHILE STOCKS ARE HELD IN STORAGE AND THUS WITHDRAWN  
FROM ECONOMY. PAYMENTS TO FARMERS WILL HELP STIMU-  
LATE RURAL DEMAND. AT SAME TIME, BDG OFFICIALS EXPECT

THAT THERE WILL CONTINUE TO BE NO SMUGGLING AND THAT  
TRADERS WILL NOT HOLD STOCKS IN ANTICIPATION OF PRICE  
RISES. COMFORTABLE STOCKS OF IMPORTED AND MANUFACTURED  
GOODS ALSO PROVIDE CUSHION AGAINST INFLATION. THUS, NFARMER  
WILL GET BETTER PRICE FOR FOODGRAINS, ECONOMY WILL BE  
STIMULATED, AND YET EXCESSIVE INFLATION AVOIDED. GOV-  
ERNOR NOTED THAT ONE CAN BE SURE THAT THIS INTENDED  
EFFORT WILL BE ACHIEVED.

6. BDG CONTINUES TO ADHERE STRICTLY TO CREDIT RESTRIC-  
TIONS AGREED ON WITH IMF FOR FY 1977, DESPITE ABSENCE  
OF FORMAL STAND-BY AGREEMENT (NEGOTIATIONS ARE STALE-  
MATED, WE UNDERSTAND, OVVER QUESTIONS RELATING TO WAYS  
TO ENSURE BALANCED BUDGET). AT PRESENT, PUBLIC SECTOR  
BORROWING IS COMFORTABLE BELOW CEILINGS WHILEV CREDIT  
EXTENDED TO PRIVATE SECTOR IS ON TARGET. THIS LATEST  
MOVE TO EXTEND CREDIT TO PRIVATE FOODGRAIN TRADERS  
WILL ENABLE PRIVATE SECTOR TO TAKE UP SOME OFNTHE  
SHORTFALL IN PUBLIC SECTOR BORROWING, AND THUS,  
MOVE IS ONE MORE REFLECTION OF BDG EFFORT TO STIMULATE  
PRIVATE SECTOR AND REDUCE OVERALL ROLE IN ECONOMY OF  
PUBLIC SECTOR.

7. IT IS VIRTUALLY IMPOSSIBLE TO QUANTIFY AMOUNT BY  
WHICH THESE LATEST MOVES WILL INCREASE PRIVATE SECTOR  
GRAIN PURCHASES, AS WE CAN NOT KNOW VWAHT THOSE PURCHASES  
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WOULD HAVE BEEN IN THE ABSENCE OF THESE RELAXATIONS OF  
RESTRICTIONS AND THIS EXTENSION OF CREDIT. CERTAIVNLY, THVERE IS  
EVERY REASON TO EXPECT THAT MORE FARMERS WILL GET HIGHER  
PRICES FOR FOODGRAINS AND THAT THE PRIVATE SECTOR WILL  
PLAY A LARGER ROLE THAT WOULD OTHERWISE BE THE CASE.  
TO EXTENT ECONOMY IS STIMULATED THROUGH ENHANCED RURAL  
PURCHASING POWER, WE CAN EXPECT IMPORTS TO PICK  
UP (AFTER A LAG) AND COMMODITY AID UTILIZATION RATES TO IM-  
PROVE.  
MASTERS

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## Message Attributes

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